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SENSITIVE
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STATE FOR EAP/MTS, EAP/EP, AND EEB/TPP
STATE PASS USTR FOR BWEISEL, RBAE AND KEHLERS
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SUBJECT: PHILIPPINES-JAPAN FREE TRADE AGREEMENT RATIFIED

REF: A) Manila 02133

¶1. (SBU) Summary: The Philippine Senate has ratified the Japan Philippine Economic Partnership Agreement, the first bilateral free trade agreement of the Philippines. The agreement elicited mixed reactions from GRP officials, business and industry sectors, and civil society groups. Nonetheless, the majority welcomed its timely ratification given the global financial crisis and recent WTO breakdown. The lengthy and tedious processes involved in the negotiation and ratification of this agreement illustrate the political challenge a bilateral U.S.-Philippine trade agreement would represent to the Philippines.

Philippine Senate Ratifies JPEPA

¶2. (SBU) On October 8, 2008 the Philippine Senate passed on third and final reading a Resolution ratifying the Japan Philippine Economic Partnership Agreement (JPEPA). Despite initial doubts whether it would win Senate ratification, 14 senators voted for the approval of the treaty, while only four voted against it.

¶3. (SBU) The ratified treaty is currently with the Department of Foreign Affairs, for an exchange of notes with the Government of Japan. Thirty days from the exchange of notes, the treaty will be in force. The Embassy of Japan has made no official statement on the ratification of JPEPA.

Mixed Reactions from JPEPA Stakeholders

¶4. (SBU) Led by President Gloria Macapagal-Arroyo, GRP officials welcomed the ratification. Trade and Industry Senior Undersecretary Thomas Aquino welcomed JPEPA's ratification and said that it will double the growth rate of Philippine exports to Japan by 10 to 20 percent annually and will bring additional investments into the country. Senator Mar Roxas, a co-sponsor of the ratification resolution, said that the Philippine government and the private sector must start working to maximize the opportunities resulting from the agreement.

¶5. (U) A week after its ratification, anti-free trade groups and civil society organizations filed a petition with the Supreme Court to issue a temporary restraining order to prevent implementation of JPEPA, and to annul the Senate's ratification of a treaty with allegedly unconstitutional provisions.

¶6. (SBU) Business organizations, industry associations, and labor groups strongly support JPEPA. They argue that it is in the best interest of the country not to be left out of East Asian economic integration, especially as most ASEAN nations are forging similar bilateral deals with Japan. According to a manifesto issued by a

coalition of business groups and unions, "the gains that the Philippines stands to get from the economic partnership far outweigh feared losses foisted by its critics." Proponents also see ratification of the JPEPA as a means of mitigating the effects of the current global financial crisis and the failure of the DOHA Round of trade talks to reach conclusion.

¶7. (SBU) A Philippine private sector observer said that JPEPA has been a "practice FTA" to prepare for other, more rigorous and comprehensive agreements like a potential U.S.-Philippine FTA. A DTI interlocutor told econoffs that the JPEPA negotiations have indeed been a learning experience. In particular, the GRP realizes that it does not have the necessary staff and expertise to conduct bilateral negotiations efficiently. Involved GRP agencies detailed staff, but did not dedicate them solely to the task, and this contributed to continuity breakdowns and a lack of follow-through that complicated negotiations and led to some delays. In meetings with Econoffs, Trade and Industry's Aquino has acknowledged a need for greater capacity building for this purpose.

¶8. (SBU) Comment: JPEPA's tedious and lengthy process, from negotiation to ratification, provided a glimpse of some of the challenges that would face any future U.S.-Philippine free trade agreement.

KENNEY